

## Summary of Draft Legislation

# Duty Disability Benefits

### **Background:**

A service-connected disability pension benefit may be nontaxable under the Internal Revenue Code if it meets certain requirements. In order to qualify, the benefit cannot be based on a member's age or years of service. If a service-connected disability provision provides a benefit based on age and/or years of service, subject to minimum that is not based on years of service, the minimum benefit can qualify for favorable tax treatment.

A LEOFF Plan 2 member who separates from service as a result of a service-related disability may choose to either withdraw their accumulated contributions and interest or receive a disability pension if they have five years of service. The member is entitled to 150% of their contributions if they have ten or more years of service. Employer contributions are not included in the withdrawal. The disability pension is actuarially reduced based on the member's age if the member has not reached age 53.

Historically, the great majority of disabled members have chosen the withdrawal option.

### **Legislation:**

The bill would provide that all LEOFF 2 members who separate from service as a result of service-related disability would be entitled to withdraw 150% of their accumulated contributions. This benefit would be entirely nontaxable. If the member chooses this benefit, they would not be eligible for a disability pension.

The bill would also provide that all LEOFF 2 members who separate from service as a result of service-related disability would be entitled to receive a minimum disability pension equivalent to ten percent of their average final salary. The minimum benefit would not be actuarially reduced based on the member's age. This minimum benefit would be nontaxable. The member may receive additional pension benefits for each year of service beyond five years. These additional benefits would be subject to actuarial reduction and would be taxable in the same manner as current disability pension benefits.

The bill includes a cap on the additional disability benefits so that the combined minimum benefit and additional benefits could not exceed the disability pension amount provided in current law.

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